From: "▇David Wallerstein)" ▇@tencent.com>
Sent: Sat, 11 May 2019 08:24:20 +0000 (UTC)
To: Joe Babcock ▇@epicgames.com>
Cc: Tim Sweeney ▇@epicgames.com>; '▇ (BenFeder)'▇@tencent.com>; Mark Rein ▇@epicgames.com>; Jay Wilbur<▇@epicgames.com>; Paul Meegan <▇@epicgames.com>
Subject: Re: Epic Board Report 2Q19 and 2018 Annual Audited Financial Statements(Internet mail)

Thanks for this feedback Joe

David Wallerstein
Tencent

On May 10, 2019, at 9:24 PM, Joe Babcock ▇@epicgames.com> wrote:

> Hi all,
> I would like to follow up on a couple of outstanding items/concerns raised.

< I think we need to do a board call or meeting with the auditors to confirm the 2018 audit? Shall we schedule?>
Typically, the vote to approve and release the audit is a function performed by publicly traded companies. While this is a good corporate practice, it is not currently required. With the absence of an audit committee, I would suggest we have our auditors, PricewaterhouseCoopers, present to the Board at the next meeting, which is a consistent approach to last year. Of course, if we would like to hold a telephonic meeting to approve the audit, let me know and I will ask Annie to arrange. If not, I will make sure PwC is present at the next Board meeting to present the 2018 audit report and any findings and the Board may confirm at that point.

<Going back to Unreal and Enterprise, since right now the key focus and evaluation metric is not sales revenue, we need to measure and evaluate other metrics. E.g., New/total active customers, number of active seats, etc. Could the team start reporting to this group monthly the key metrics that they're referencing to measure their progress and success?>
I have forwarded this request to Marc Petit and expect to begin publishing KPI and other UE performance metrics in our upcoming monthly business flash report - which I plan to publish in the next week or two.

<Finally, can you explain the rising 3rd party royalties expense? Is that all related to EGS? >
Correct, the 3rd party royalty expense relates to EGS minimum guarantees either realized or amortized over the exclusivity period.

Joe

On Sat, May 4, 2019 at 6:58 AM ▇David Wallerstein) ▇@tencent.com> wrote:

EXHIBIT 10677

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EXHIBIT 10677-001

Thanks for the additional color Tim.

Going back to Unreal and Enterprise, since right now the key focus and evaluation metric is not sales revenue, we need to measure and evaluate other metrics. E.g., New/total active cus:omers, number of active seats, etc. Could the team start reporting to this group monthly the key metrics that they're referencing to measure their progress and success?

David Wallerstein
Tencent

> On May 3, 2019, at 9:58 AM, Tim Sweeney ████████@epicgames.com> wrote:
>
>
>> —i would like us to confirm our view on Android revenues going forward. Feels like a significant global opportunity and we're not reporting the revenues in here (meaning that they must be very small?). Do we need to revise our view and approach forward Android? If Android can achieve a level of revenues similar to IPhone that we be material and we should embrace that.   I'm just feeling that it's a lot of value on the table and maybe opens us up to a competitor targeting Android or Unity doing some kind of strategic Android deal, etc.
>
> We're limited by two things:
>
> - Going it alone on Android distribution rather than using Google Play. We feel we're not losing core players who want to engage in Fortnite, but are losing traffic from users who are looking for a game and decide to try Fortnite because it was in their chosen storefront. We're compensating somewhat with UA spend, but not fully, because...
>
> - Other than a few Samsung flagship devices, Android users skew low-end, and many of the common devices are not yet supported by Fortnite. The estimate is something like 400M compatible Android devices versus 600M compatible iOS devices. This is especially holding us back outside of developed economies. We have a FortLite initiative to combat that and expand our device reach by around 4x.
>
> Timing of FortLite and of launching an early version of the Epic Games store on Android aren't determined, but both will provide opportunities together with the Kairos social initiative for a major UA push focused on Android and developing markets.
>
>> —I think we need to do a board call or meeting with the auditors to confirm the 2018 audit? Shall we schedule?
>>
>> —do we have a forecast for 2019 esports revenues and shall we start reporting? Congrats on event sales
>
> I think Joe dropped the line item because pure eSports revenue (brand sponsorships, broadcast rights, ticket sales) were immaterial under our current strategy. In general, we've shied away from partnership opportunities where the revenue doesn't clearly justify the impact of reduced reach or diluting the events with sponsor ads. This leaves eSports as marketing and engagement events rather than a line of business, at least in the timeframe of the World Cup. We're continuing to strategize for the longer term and are working to bring on an overall eSports leader.
>
>> —how should we interpret engine sales and enterprise sales? It looks like we're performing far below forecast or expectations based on engine sales in earlier years. If we're not driving sales right now, but rather penetration, let's please very systematically track those penetration

numbers and report directly, and even better if we can track usage/penetration by industry/sector. Could we get more of an update there? (An update would be more once off, but if we agree we should be tracking market penetration metrics, let's please do those monthly going forward). I recall much higher enterprise forecasts earlier and our higher engine revenues in recent years. We all know how strategic engine penetration is long term, so i just want to ensure we're all tracking it systematically.

>

> Generally we're seeing modest game industry customer base growth (mainly switchers from internal engines and Unity) and no replacement for the PUBG licensing revenue that drove revenue last year as a 5% royalty license on a game that was much more successful than expected.

>

> On enterprise, we're prioritizing market share gains over revenue, and aren't making major market share gains other than film/TV. We hold the small high end (Porsche, etc) but Unity is being much more broadly adopted and we're discussing how to compete more effectively.

>

>> —EGS, exciting to see this move. I really want to hear how April did and if this progress is continuing. Then again, how can we potentially mitigate this 160+\- million USD pending loss with the MGs? Can we go back to the publishers and request extensions, if they're going to be tapping into their MGs, see what's possible? We could sweeten it somehow? I'm feeling like maybe we need some traffic driving sources outside the store to help move our titles, etc, like an Epic steaming service or content portal (instant messaging) where some kind of user marketing or guidance to titles would not be damaging to the user experience. This is in part how we ended up with a major QQ.com operation. I can discuss more tencent platform history next time we meet in person and maybe can do a jam session on it. But the key point is: can we start discussing a "MG loss mitigation strategy" so maybe through a combo of efforts we don't loose a penny of that 646 mm MG. And overall, how do we feel about this concept of having like a 600-650 mm "rolling" MG at any time, so if the EGS team wants more MG, better drive sales, forecast and target titles more and more accurately, etc?...so MGs are quickly replenished by sales in the market...

>

> April was a record month in revenue and active users. All trends show the cumulative effect of more major exclusives and free games bringing more new users to the platform.

>

> Our strategy for fulfilling MGs is a giant promotional event, the Epic Mega Sale, in May, and another near the end of the year. We'll provide a combination of Epic-funded vouchers for discounts and publisher-funded discounts on games to drive revenue for everything and burn down the MG shortfalls in a way that will please all of our partners and build momentum.

>

> The harsher metric we need to judge our store by is, if a game launches non-exclusively on both Steam and Epic, how do the revenues compare? This number establishes the market share we could expect if we stopped exceptional promotional activities like exclusives and free games. Last checkpoint a couple months ago was 90%/10%, which shows we will need continued significant investment and partner buy-in for our efforts.

>

> Tim

EXHIBIT 10677-003